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INTERAGENCY INTELLIGENCE ASSESSMENT
12 March 1984

IRAN-IRAQ WAR:
Escalation Scenarios and Threats to Persian Gulf States

We believe the warnings about possible escalation of the Gulf war contained in SNIE 34/36-2-83 dated October 1983 remain valid. The SNIE predicted a series of intermediate escalatory steps by Iraq to increase military pressure on Iran, possibly culminating in Iraqi attacks on Iran's Khark Island oil terminal or associated tanker traffic and Iranian retaliation against oil exports from Arab Gulf states. We believe Iraq already has passed through many of the intermediate warning steps outlined in the SNIE.

The risk of a serious Iraqi effort against tankers or Khark Island will increase if, as expected, Iran launches its next major offensive, probably within a month. A serious Iraqi effort against Khark is particularly likely if the battle goes badly for Baghdad. On paper Iraq has the capability to shut down Khark Island through direct military attack or attack on tankers calling at Khark. Iraqi willingness to risk heavy losses in such efforts is the question.

As we noted in the October SNIE, the result of Iraq's initial attacks on Iranian oil exports from Khark is not likely to be clear cut. Should sporadic or limited Iraqi attacks cause only a modest interruption in Iranian oil export we believe Iran would choose options at the lower end of the escalatory scale.

This Interagency Intelligence Assessment was requested by the National Security Council Staff. It was prepared under the auspices of the National Intelligence Officer for Near East and South Asia. The Assessment was coordinated at the working level with the Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, the Department of State, and the intelligence services of the U.S. Army and Marine Corps. Information available as of 12 March 1984 was used in preparation of this Assessment.

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At a minimum, we believe the Iranians will employ psychological warfare through the use of Iranian inspired and supported Shia terrorism directed at Iraq's Gulf supporters as well as US personnel and facilities in the region and beyond.

Iran might also execute some of the lower risk options if its new offensive is defeated by Iraq.

Lower Risk Options

As discussed in the SNIE, Iran has numerous options for retaliation but we believe the Iranians would first try to choose optons which Tehran felt would not provide a pretext for Western military intervention. We continue to believe that trying to shut down the Strait would be Iran's last step in escalating the war. We believe lower-risk options include:

-- overflight of off-shore Arab Gulf oil facilities and terminals or shipping bound for them by Iranian combat aircraft.

-- random detention and search of bulk shipping carriers bound for Arab Gulf ports for contraband

-- further air raids against targets in Kuwait

-- attacks against Iraq's remaining oil exporting facilities, including the Iraq-Turkey pipeline.

Should Iraq inflict serious damage on Khark--through which 90 percent of Iran's oil is exported--or cut off tanker traffic to Khark for a prolonged period, we believe Iran would react more sharply.

More Serious Steps

Tehran probably recognizes that its other two escalatory options would carry a significant risk of confrontation with the US. They are:

-- military actions against Saudi Arabia or the Arab states of the lower Gulf. This would include naval air or commando attacks against off-shore or on-shore Arab Gulf oil facilities, desalination plants, or other economic targets.

-- disruption of Gulf oil shipping. This could range from a declaration that the Strait had been closed or mined--a bluff that initially probably would be respected by most shipping--to a direct air and naval action, including mining, to force the closure of the Strait to commercial traffic. It would entail continued attacks against tankers in the Gulf even if the Strait was cleared.

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We believe these scenarios would occur roughly in the order stated. We cannot, however, rule out simultaneous use of some actions. Terrorism could be expected to form a backdrop to any of the above.

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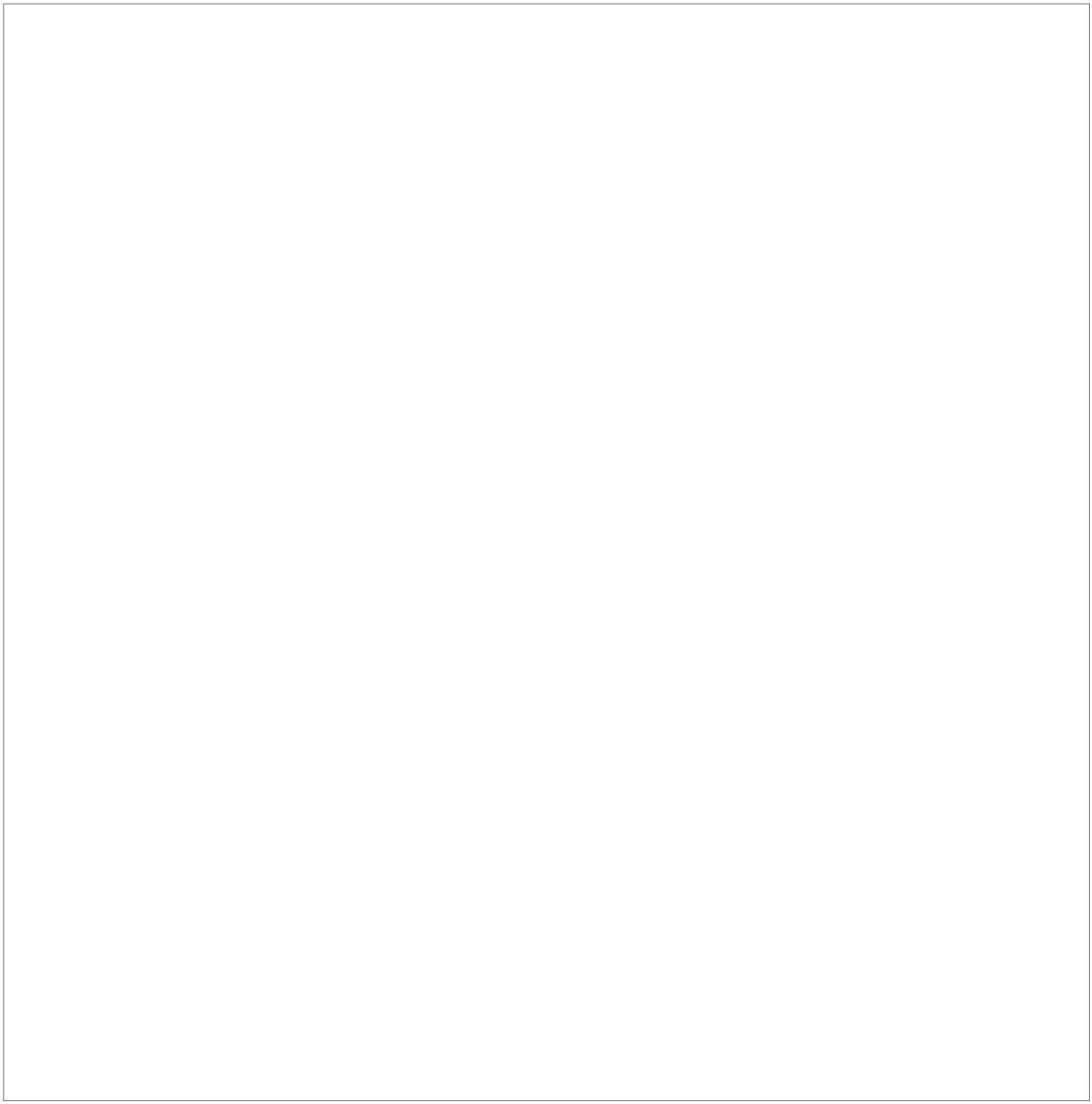

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Impact of the Escalation Scenarios on Oil

The potential for oil price increases would be limited so long as Saudi Arabia can use its oil producing capacity to continue supporting the current oil price. It would take the unlikely event of major disruption to Saudi oil exports to substantially change this picture. Two types of Iranian actions could reduce Gulf oil exports to the point that free world oil supplies would be significantly disrupted. These circumstances are:

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-- Sustained and successful Iranian attacks against tanker traffic in the Straits and the Gulf.

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